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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 9983
INFO RUEHBO/AMEMBASSY BOGOTA 7554
RUEHLP/AMEMBASSY LA PAZ OCT LIMA 0874
RUEHQT/AMEMBASSY QUITO 2688
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

C O N F I D E N T I A L CARACAS 002084

SIPDIS

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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MMALLOY
NSC FOR JCARDENAS AND JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: DECL: 10/24/2017
TAGS: [ECON](#) [EFIN](#) [VE](#)
SUBJECT: PARALLEL DOLLAR RATE CONTINUES RAPID CLIMB

REF: A. CARACAS 2040
[1](#)B. CARACAS 1053

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.4 (b) and (d).

Summary

[1](#)1. (C) The parallel rate for dollars has jumped sharply in recent months, increasing 65 percent in the last six months from 3,700 bolivares (Bs)/USD on April 26 to 6,180 Bs/USD on October 26. Reasons for the increase include increasing liquidity and general unease about the constitutional reform process. While the BRV has brushed off the significance of the parallel market, the widening gap between the parallel rate and the official rate, which is fixed at 2,150 Bs/USD, creates growing incentives for fraud and corruption. Additionally, as the bolivar becomes increasingly overvalued at the official rate, the BRV will have to tighten importers' access to dollars at that rate. End summary.

Higher and Higher

[1](#)2. (U) The U.S. dollar was trading at 6,180 Bs to one USD on the parallel market on October 26. The parallel rate was 4,975 Bs/USD on September 26 and 3,700 Bs/USD on April 26, indicating that the value of the bolivar on the parallel market has declined 23 percent in the past month and 65 percent in the last six months. The bolivar is now trading on the parallel market at 2.8 times its official value of 2,150 Bs/USD. (Note: The BRV has kept the official rate fixed at 2,150 Bs/USD since March 2005. The BRV allocates foreign exchange at the official rate through the Commission for the Administration of Foreign Exchange (CADIVI). The parallel market refers to the rate obtained when exchanging money through a legal bond swap mechanism commonly known as the "permuta." End note.)

Reasons for the Spike

[1](#)3. (C) Local analysts have offered several reasons for the

rapid recent climb of the parallel rate. Christina Rodriguez, President of the local consulting firm MacroEconomia, Luis Zambrano, chief economist of Banco Mercantil, and Pedro Coa, chief economist at Banesco, all cited general unease and uncertainty about the economic and political implications of the constitutional reform process. Rodriguez added that increased liquidity, partly due to government expenditures in the run-up to the December constitutional referendum, was also a factor, as Venezuelans saw few local opportunities to productively invest their increasing stock of bolivars. Zambrano cautioned that the parallel market was small and lacked transparency; as such, single transactions and rumors could have a disproportionate impact.

Does it Matter? Apparently Not (Yet) to the BRV

¶4. (U) Vice Minister of Finance Carlos Ramones brushed off the significance of the rise in the parallel rate. As reported by El Nacional on October 23, Ramones called the parallel market marginal, claiming it corresponded to 5 percent of imports. (Note: Most of our contacts believe the parallel market accounts for 15 to 25 percent of imports. End note.) He argued that the recent rise was due to speculative factors and scoffed that anyone who wants to purchase dollars at the parallel rate was welcome to do so. Finance Minister Rodrigo Cabezas did not even address the parallel rate in his presentation of the 2008 budget (ref A), though he triumphantly guaranteed that there would be no devaluation of the official rate in 2008.

Comment

¶5. (C) Whatever the causes of the rise in the parallel rate, it clearly only increases the incentives for fraud and corruption (ref B). We continue to hear stories that some importers are inflating their import requests, seeking to receive extra dollars through CADIVI at the official rate which they can turn around and sell for bolivars at the parallel rate. This practice is virtually equivalent to printing money, except that the rents go to the perpetrator of the fraud rather than the government.

¶6. (C) While part of the rise in the parallel rate may be due to speculation, one underlying driver is the combination of high inflation without an official devaluation, which has left the bolivar clearly overvalued at the official rate. This trend is showing no signs of abating, as increased liquidity continues to drive inflation. The more overvalued the bolivar becomes, the more importers will flood CADIVI with requests for dollars at the official rate. CADIVI in turn will have to grant these requests more sparingly, which will lead to greater shortages or higher prices for non-priority items. Indeed, we are already seeing these impacts. CADIVI authorizations have grown from an average of 103 million USD/business day from January to October 2006 to 162 million USD/business day over the same period in 2007, an increase of 57 percent. We have also recently heard anecdotally that various importers are having to wait longer for CADIVI approval.

FRENCH